

# HOUSE BILL REPORT

## HB 1098

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### As Passed Legislature

**Title:** An act relating to the teachers' retirement system plan III contribution rates.

**Brief Description:** Changing teachers' retirement system plan III contribution rates.

**Sponsors:** By House Committee on Appropriations (originally sponsored by Representatives Carlson, H. Sommers, Cooke, Conway, Sehlin, Ogden, Wolfe, Blalock, Constantine, Tokuda, Hatfield, Dunn, Wood, O'Brien, Veloria, Kessler, Cairnes, Murray, Keiser, Sheldon, Anderson, Cody, Kenney, Scott, Dunshee and Mason; by request of Joint Committee on Pension Policy).

**Brief History:**

**Committee Activity:**

Appropriations: 2/4/97, 2/19/97 [DP].

**Floor Activity:**

Passed House: 2/28/97, 95-0.

Passed Legislature.

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### HOUSE COMMITTEE ON APPROPRIATIONS

**Majority Report:** Do pass. Signed by 31 members: Representatives Huff, Chairman; Alexander, Vice Chairman; Clements, Vice Chairman; Wensman, Vice Chairman; H. Sommers, Ranking Minority Member; Doumit, Assistant Ranking Minority Member; Gombosky, Assistant Ranking Minority Member; Benson; Carlson; Chopp; Cody; Cooke; Crouse; Dyer; Grant; Keiser; Kenney; Kessler; Lambert; Linville; Lisk; Mastin; McMorris; Parlette; Poulsen; Regala; D. Schmidt; Sehlin; Sheahan; Talcott and Tokuda.

**Staff:** Elissa Benson (786-7191).

**Background:** The Teachers' Retirement System Plan III (TRS III) was enacted during the 1995 legislative session and was opened to membership July 1, 1996. The purpose of TRS III is to give vested employees more flexibility in determining the form and timing of their retirement benefits and to allow employees to change careers without a dramatic loss of retirement benefits.

The Joint Committee on Pension Policy (JCPP) developed and recommended the TRS III to the Legislature. One of the principles followed in developing the TRS III was that any new plan was to be cost neutral to the state.

TRS III has two components: (1) a defined benefit component paid by the employer; and (2) a defined contribution component paid by the employee. This two-component approach is different from the plan II retirement system in which the employer and employee contributions are both used to provide the defined retirement benefit.

New teachers hired after July 1, 1996, are required to be members of TRS III. Members of TRS II can make an irrevocable decision to join TRS III by transferring their plan II service credit and contributions. If a TRS II member elects to switch to TRS III, the member's employee contributions, plus interest, are transferred to an individual-defined contribution account. The TRS III plan established a two-year transfer window beginning July 1, 1996, and ending January 1, 1998. If a TRS II member chooses to transfer within that window, an additional payment of 20 percent of the employee contributions as of January 1, 1996, will be deposited into the member's defined contribution account at the end of the two-year window.

The purpose of the additional transfer payment was to maintain the cost neutrality of TRS III. The 20 percent calculation reflects the assumptions made in the original 1994 fiscal note.

Legislation creating TRS III specifies that TRS II employee contribution rates will not exceed the plan II and plan III rates. The restriction becomes effective September 1, 1998.

**Summary of Bill:** The additional payment made to transferees' defined contribution account increases from 20 percent to 40 percent.

A technical correction is also made by changing the effective date of the limitation on TRS II employee contributions to the beginning of the 1997-99 period, September 1, 1997.

**Appropriation:** None.

**Fiscal Note:** Available.

**Effective Date:** Ninety days after adjournment of session in which bill is passed.

**Testimony For:** Increasing the transfer payment from 20 percent to 40 percent retains the cost neutrality of the plan, which was one of the goals of the Joint Committee on Pension Policy. Teachers considering transfer are benefitting from the TRS III educational materials that are being provided. Many are waiting until the end

of the transfer window because they want to be fully aware of changes to plan III such as this.

**Testimony Against:** None.

**Testified:** Representative Carlson, prime sponsor; Bob Maier, Washington Education Association; and John Kvamme, Washington Association of School Administrators and Association of Washington School Principals.